

CollegeCounts 529 Board Meeting
November 7, 2012
1:30 p.m.
MINUTES

Board Present:

Chair Young Boozer
Mr. Dennis Beavers
Mr. Chess Bedsole
Ms. Jane Leatherwood for Chancellor Mark Heinrich
Dr. William Meehan
Mr. Ronald Stokes

Board Absent:

Dr. Greg Fitch
Mr. Daniel Hughes, Vice Chair
Lt. Gov. Kay Ivey
Mr. Mychal Smith

Others Present:

Ms. Daria Story, Assistant Treasurer
Ms. Glenda Allred, Deputy Treasurer
Mr. Chad Wright, Program Director
Mr. Jay Steinacher, Union Bank & Trust
Mr. William Shafferman, Union Bank & Trust
Ms. Cari Kaup, Union Bank & Trust
Mr. Jeremy Thiessen, PCA Consultants
Mr. Eric White, PCA Consultants
Mr. Trevor Jackson, Wilshire Associates (by phone)
Mr. Mannik Dhillon, Wilshire Associates (by phone)

Pursuant to written and public notice, the meeting of the Board of Directors of the CollegeCounts 529 Fund was held in the Abe Berkowitz Conference Room of Baker, Donelson, Bearman, Caldwell & Berkowitz PC in Birmingham, Alabama on November 7, 2012.

Agenda Item 1.

The meeting was called to order by Chair Young Boozer at 1:30 p.m. Roll was taken with a quorum present.

Agenda Item 2.

Chair Boozer presented the minutes of the August 8, 2012 board meeting. A motion for approval of the minutes was made by Mr. Beavers, seconded by Mr. Bedsole, with unanimous approval.

Agenda Item 3.A.

Chair Boozer called on Mr. Chad Wright for the program report. Mr. Wright provided information on the program budget as well as asset statements for the Administrative and Opportunity Enhancement Funds.

Agenda Item 3.B.

Chair Boozer called on Mr. Jay Steinacher for the quarterly program review. Mr. Steinacher stated that the third quarter of 2012 was another good period for the program. He noted that the total assets in the plan total \$891 million and that contributions to the plan continued to be strong. Assets held by Alabama account owners total \$255.4 million at quarter end. Total contributions for the quarter were \$26.1 million, with \$15.4 million coming from Alabama families (a 28% increase over 2011). Total program accounts are now at 61,368 with 21,984 of those being Alabama accounts. He indicated that rollover contributions continue to be strong as well. For the quarter, 1,189 rollovers totaling \$18.9 million were made to the Advisor Plan (Avg rollover of \$15,911) and 409 rollovers totaling \$7.7 million were made to the Direct Plan (Avg rollover of \$18,823). Year to date, there have been 5,408 new accounts opened. Of those, 4,175 are new Alabama accounts. Based on current trends, he anticipates that there will be about 6,500 total new Alabama accounts opened this year. Mr. Steinacher then discussed the market value of all accounts by state and by county for Alabama accounts. He then provided statistics on withdrawal activity and the number of accounts within each of the available portfolios. In addition, he pointed out that 75% of account owners are between the ages of 35 & 64 and that the overall average account size is \$15,220.

Mr. Steinacher provided information on statistics on web activity and grass roots marketing efforts and stated that he expected November and December to be strong months as people make year-end decisions to open accounts and make additional contributions. He provided samples of the marketing pieces that had been distributed during the quarter and provided information on upcoming CollegeCounts seminars in Huntsville and Birmingham featuring college savings expert Joe Hurley. He introduced Cari Kaup who oversees the Union Bank Customer Care Center. Ms. Kaup provided information on call activity and stated that most callers were neutral to positive. She mentioned that UBT is utilizing extensive research and skip tracing methods to maintain contact with account owners and minimize the number of accounts that may become eligible for escheatment to unclaimed property programs.

Ms. Glenda Allred discussed additional marketing efforts that are currently underway. She summarized television advertising that will be run in November and December and the Black Friday promotion at two shopping malls in Huntsville and Birmingham set for the day after Thanksgiving to promote the CollegeCounts program.

The complete September 30, 2012 report is attached for reference.

Agenda Item 3.C.

Chair Boozer called on Mr. Trevor Jackson and Mr. Mannik Dhillon of Wilshire Associates for the investment performance report. The detailed quarterly report was received for information and is attached for reference.

Mr. Jackson indicated that the 3rd quarter was generally a good quarter with positive returns across the board. He stated that inflation remained muted and job growth remained anemic. On a positive note, housing prices continued to rise. He stated that, even with the positives of the 3rd quarter, many investors are concerned about the political climate and the potential for a

fiscal cliff in the future. Mr. Jackson summarized overall returns for international equity, fixed income and the real estate and commodity markets. He provided information on the direct plan target portfolios and stated that all of them had positive returns for the quarter. The target portfolios within the advisor plan had positive returns as well.

Mr. Dhillon provided a summary of the individual fund portfolios and provided commentary on fund performance compared to the relative benchmarks. In addition, he provided a summary of fund manager updates. He mentioned that Northern Funds has announced that they were reorganizing some of their institutional mutual funds and that three funds within CollegeCounts would be affected. However, Wilshire feels that the investment objective, holdings and manager oversight are similar between the funds and changes to the fees are insignificant. Therefore, he said, Wilshire views the changes as immaterial and no cause for action.

Agenda Item 3.D.

Chair Boozer called on Mr. Jeremy Thiessen of Pension Consulting Alliance, Inc (PCA) for the consultant's analysis. Mr. Thiessen provided a summary of PCA's investment market risk metrics. He then provided the summary of fund performance and status report. For the direct plan, he mentioned that the T. Rowe Price Balanced fund moved from "acceptable" to "positive" and the Vanguard Intermediate Bond Index moved from "monitor" to "positive. No other funds qualified for watch status. For the advisor plan, Mr. Thiessen stated that the active funds, regardless of their status, performed very well relative to their peers.

He reviewed the watch status update. Three funds, Fidelity Advisor Mid Cap II, PIMCO Total Return and BlackRock Inflation Protected were on watch status. Mr. Eric White stated that the PIMCO Total Return fund continued to improve and was recommended to be removed from watch status and that the Cohen & Steers fund be placed on watch status due to underperformance. The Fidelity Mid Cap II fund has been removed from the portfolios and is no longer an issue for the performance report. Dr. Meehan made a motion, seconded by Mr. Beavers, to accept the PCA recommendation to remove the PIMCO fund from watch status with unanimous approval. Dr. Meehan made a motion, seconded by Mr. Stokes, to accept the PCA recommendation to place the Cohen & Steers fund on watch status with unanimous approval.

Mr. Thiessen then provided information regarding a comparison of the CollegeCounts age-based portfolios (direct and advisor) to its peers. He summarized the returns for each age and compared them to the median peer groups for both the direct and advisor plans.

Agenda Item 4.A.

Chair Boozer called on Mr. Steinacher to summarize the disclosure statement supplements. He provided information on the updates including the annual gift tax exclusion amounts and changes to the funds within the portfolios.

Mr. Beavers made a motion, seconded by Dr. Meehan to approve the updated disclosure statements with unanimous approval.

Agenda Item 4.B.

Chair Boozer called on Ms. Allred for a presentation on the CollegeCounts Scholarship program. Ms. Allred provided information on the program including a timeline for implementing the program, launching the website, accepting applications and awarding the scholarships. She stated that the application period would run from January 2 until March 7, 2013 with the awards announced around May 1, 2013. Board members were shown samples of the marketing materials that would be used and distributed to students and guidance counselors to promote

the program. Ms. Allred also provided examples of information that will be posted on the CollegeCounts Facebook tab and samples of flyers that will be distributed to guidance counselors at their conference in December. She then displayed and walked through each page of the scholarship website and explained the process for submitting an application.

Mr. Beavers requested clarification on what would be done with any awarded scholarship funds that were not utilized by an award winner in the current year. He asked whether alternate winners would be designated or if the unused funds would be rolled into the pool of awarded funds for the following year. Mrs. Allred stated that any unused funds would be rolled over to the following year.

A resolution for approval of the scholarship program was presented to the Board for its consideration. Upon motion made by Mr. Beavers, and seconded by Mr. Bedsole, the resolution as attached was approved by unanimous vote.

Mr. Beavers then discussed the possibility of expanding the scholarship program to include current account owners. He suggested that current owners be given the opportunity to earn the chance for possible scholarship awards based on some established criteria. He offered possible criteria that included the number of contributions during the year or number of online transactions. Chair Boozer stated that the program will be offered in the approved structure and may be expanded in the future.

Agenda Item 5.A.

Chair Boozer called on Mr. Thiessen to summarize the Morningstar report on ratings of 529 plans and a memorandum to the board that was provided by AKF Consulting. He summarized the methodology utilized by Morningstar to evaluate and rate each state's 529 plan. He explained that there are five pillars being used in their evaluation including Process, Performance, Parent, Price and People and described each. AKF concluded that the direct plan's Bronze rating was a positive and that the advisor plan's Neutral rating could possibly be improved with a decrease in fees. He noted that the full Morningstar report would not be available until a later date. Chair Boozer commented that tremendous progress has been made in improving the plans and that continued analysis of fees would be beneficial. He suggested that the plans be analyzed to the other plans in the same rating group to highlight differences.

Agenda Item 6.

Chair Boozer informed board members of the 2013 meeting dates and times.

There being no further business, a motion to adjourn the meeting was made by Mr. Beavers, seconded by Dr. Meehan with unanimous approval. The meeting adjourned at 3:45 p.m.

Chad Wright, Recording Secretary

Young Boozer, Chair